

Farmers and Use Tax



Many farmers do not realize that use tax is due when tangible personal property is acquired without payment of Washington's retail sales tax. For example, if a farmer buys a tractor from a neighboring farmer, use tax is due unless a specific exemption applies.

Since farmers are not generally required to register with the Department of Revenue, many are unaware that they may owe use tax and if so, how to report it.

What is use tax?

The use tax complements the sales tax by imposing a tax on the use of tangible personal property and some services in Washington when sales tax has not been paid. It is computed at the same rate as the sales tax. Unless specifically exempt by law, all tangible personal property, including machinery and equipment, used in this state is subject to either the sales **or** use tax, but not both, regardless of how the property is acquired.

When you purchase machinery and equipment from a dealer in this state, you usually pay sales tax to the dealer who, in turn, pays the tax to the Department of Revenue. However, there are many instances where sales tax is not paid. In these situations, use tax is due. The following are examples of when farmers may owe use tax:

- ◆ **Machinery and equipment purchased from another farmer** – Unless the seller is registered with the Department, sales tax will not be collected and the purchaser owes use tax.
- ◆ **Machinery and equipment purchased in another state** – In this case, the purchaser owes use tax.
- ◆ **Machinery and equipment purchased from a mail order catalog** – Many mail order businesses collect Washington's sales or use tax. However, if the seller does not collect sales tax, the purchaser owes use tax.
- ◆ **Machinery and equipment purchased through the Internet** – If the seller does not collect Washington's sales or use tax, the purchaser owes use tax.
- ◆ **Machinery and equipment repairs (parts and labor)** – If repairs are performed outside the state and the machinery and equipment are shipped back into Washington use tax is due. (effective June 1, 2002)

Aren't farmers exempt from tax?

Farmers are often exempt from the business and occupation (B&O) tax. However, they are not automatically exempt from sales tax or use tax.

Here are some sales/use tax exemptions available to farmers:

- ◆ Purchases of tangible personal property (which have been used in conducting a farm activity) made through an auctioneer, if the seller is a farmer and the sale is conducted on a farm. (RCW 82.08.0257, RCW 82.12.0258)
- ◆ Purchases of feed for feeding livestock at public livestock markets. (RCW 82.08.0296, RCW 82.12.0296)
- ◆ Purchases of pollen. (RCW 82.08.0277, RCW 82.12.0273)

- ◆ Purchases of semen for use in the artificial insemination of livestock. (RCW 82.08.0272, RCW 82.12.0267)
- ◆ Purchases of livestock for breeding purposes. (RCW 82.08.0259, RCW 82.12.0261)
- ◆ Purchases of cattle and milk cows used on the farm. (RCW 82.08.0259, RCW 82.12.0261)
- ◆ Purchases of poultry for use in the production of poultry or poultry products for sale. (RCW 82.08.0267, RCW 82.12.0262)
- ◆ Purchases of bedding materials used to facilitate the removal of chicken manure. (RCW 82.08.920, RCW 82.12.920)
- ◆ Purchases of propane and natural gas used to heat structures used exclusively to house chickens. (RCW 82.08.910, RCW 82.12.910)
- ◆ Leases of irrigation equipment. (RCW 82.08.0288, RCW 82.12.0283)
- ◆ Purchases of services rendered to dairy nutrient management equipment and facilities. (RCW 82.08.890, RCW 82.12.890)
- ◆ Purchases of animal pharmaceuticals. (RCW 82.08.880, RCW 82.12.880)
- ◆ Construction of agricultural employee housing. (RCW 82.08.02745, RCW 82.12.02685)
- ◆ Purchases of machinery, equipment, or structures primarily used to reduce field burning. (RCW 82.08.840, RCW 82.12.840)
- ◆ Purchases of anaerobic digesters. (RCW 82.08.900, RCW 82.12.900)



Note: Each exemption listed contains a brief description, but does not include the requirements for the exemption.

In addition to the above exemptions, sales and use tax does not apply to purchases of feed, seed, seedlings, fertilizer, agents for enhanced pollination, and spray materials by farmers for

producing agricultural products for sale. Nor does sales or use tax apply to goods purchased.

Do I get credit for equipment I use as a trade-in?

Use tax is computed on the amount due after the value of a “like kind” trade-in is subtracted from the purchase price. For example, if you bought a plow from a dealer in another state and you used another plow as a trade-in, use tax is due on the balance remaining after the trade-in is subtracted.

Do I get credit for tax paid in another state?

If sales or use tax was paid in another state or country, you may take a credit for the amount of tax paid against the amount of use tax due in Washington. In order to take the credit, you must have documentation, such as an invoice, of the amount of tax paid.

Is use tax due if I acquire farm equipment when I purchase a farm?

If you acquire tangible personal property with the purchase of a farm, use tax is due on the value of the personal property such as machinery, equipment and supplies.

When completing the Real Estate Excise Tax Affidavit for the county treasurer, you must indicate the value of the personal property separate from that of the real property.

Do I owe use tax if machinery or equipment is given to me?

Use tax is not due if the person giving you the machinery and equipment has already paid sales or use tax. However, if sales or use tax was not paid by that person, you owe use tax.

When is use tax due?

Under state law, use tax is due when the tangible personal property is first put to use in this state.

How do I report and pay use tax?

For farm vehicles and trailers that must be licensed for use on roads, use tax is paid to the county auditor or licensing agent.

To report and pay the tax on other types of tangible personal property, the Consumer Use Tax Return may be used. You can request it by visiting our web site at <http://dor.wa.gov> or calling our Telephone Information Center at 1-800-647-7706.

If you are registered with the Department, you should report use tax under the use tax sections of the excise tax return.

How will the Department of Revenue know if I don't pay the tax?

The Department actively investigates and pursues businesses and individuals to collect unpaid taxes, including the use tax. Department employees use many resources to discover unpaid use tax. For example, we review personal property records of the county assessor's office to locate tangible personal property on which sales or use tax has not been paid. After a review of the assessor's records, notices are sent to farmers requesting either payment of use tax or verification that sales or use tax has been paid. Likewise, the Department reviews Real Estate Excise Tax Affidavits to determine whether use tax has been paid on personal property acquired in connection with a real property transfer. The Department also detects unpaid use taxes through the audit process.

How can I prove that sales or use tax has been paid?

Your invoice will prove if sales tax has been paid. By law, purchase documents, such as sales receipts or invoices, must separately state the sales tax from selling price.

To prove you have paid use tax, keep the documentation (for example, Consumer Use Tax Returns or excise tax returns) for all items on which you've paid the tax.

If You Need More Information

The following administrative rules and guides apply to farmers:

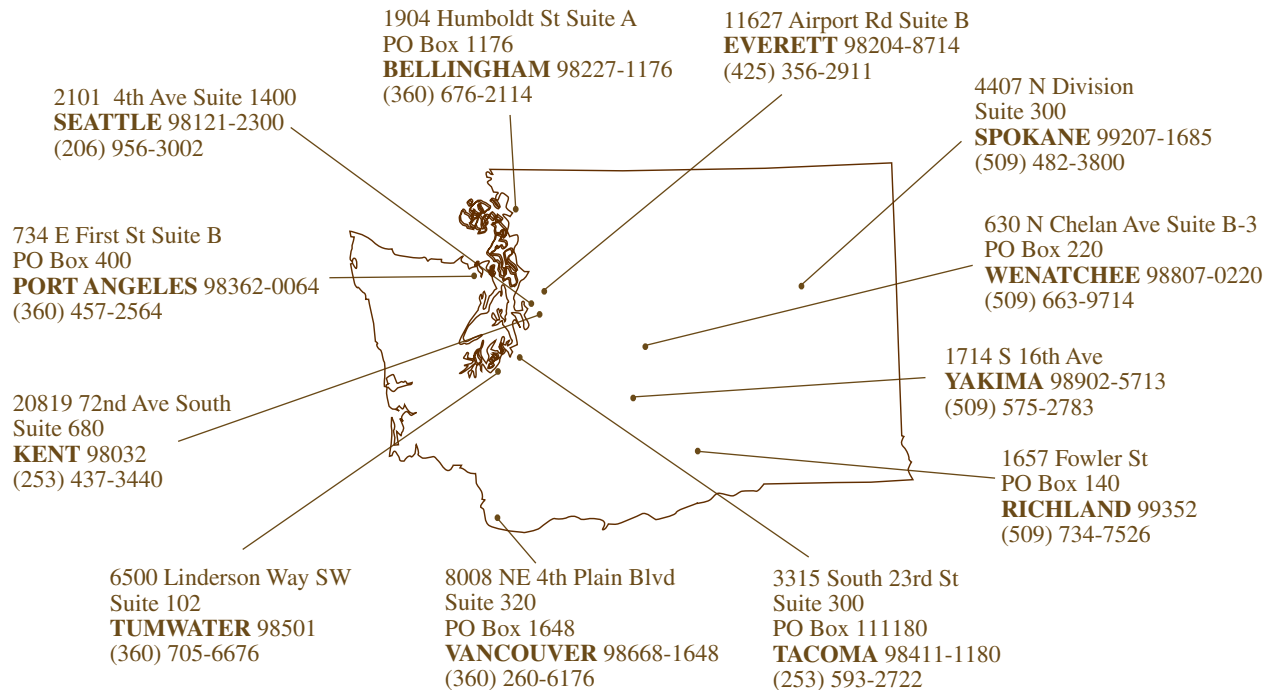
- ◆ WAC 458-20-102 discusses the use of resale certificates by farmers.
- ◆ WAC 458-20-209 discusses the taxability of farming for hire and horticultural services provided to farmers.
- ◆ WAC 458-20-210 discusses the sale of agricultural products and tangible personal property for farming.
- ◆ WAC 458-20-178 discusses the use tax in general.
- ◆ WAC 458-20-262 discusses agricultural employee housing.
- ◆ Agriculture Guide – an overview of the industry.

The rules, laws, applications, and forms are available on our web site at <http://dor.wa.gov> or by calling 1-800-647-7706.

Department of Revenue Taxpayer Assistance

<http://dor.wa.gov>

Local Offices



Telephone Information Center

1-800-647-7706

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